



25-25 September, 2008, New Delhi

Summary Proceedings

Gas pricing to be determined by Govt: Petroleum Secy.
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Various issues and problems connected with the availability and accessibility of natural gas, the fuel of the future, came up for detailed discussions at the recent two-day 7th Petro India 2008, organised jointly by Observer Research Foundation and Indian Energy Forum in Delhi.



The first day, 25 September, was devoted to the theme "Gas in India – Issues, Opportunities and Challenges" while the second day was a "Conclave on City Gas Distribution".

There were presentations and discussions on "Domestic Natural Gas Demand – Supply Balance", "Natural Gas Policy, Regulatory Issues", "LNG, Imported Natural Gas, CBM etc", "Natural Gas Pricing and Utilisation Policy", "Gas Infrastructure and Allied Issues" and "Conclave on City Gas Distribution".



Mr. R.S. Pandey, Secretary, Ministry of Petroleum and Natural Gas, delivered an insightful inaugural address. Dr. David Victor, Freeman Spogli Institute for International Studies, Stanford University, USA, delivered the special address. Welcoming all to the conference, Mr. S.C. Tripathi, chairman of the Organising Committee and a former Secretary of the Ministry of Petroleum and Natural Gas, put the important issues in the right perspective.

Noting that gas pricing was key to both demand and growth, Mr. R.S. Pandey said that the pricing formula should be determined by the government so as to prevent any hardship to the vast majority of individual consumers. Also, gas would be given on priority to the fertiliser and power sectors, he said. Mr Pandey called for a shift in emphasis to natural gas, the fuel of the future, and announced that the results of NELP-VII bidding would be finalised soon. Mr Pandey advocated a two-pronged strategy to reduce the country's import dependency in the energy sector. One, to accelerate efforts on exploration and development, and two, acquisition of assets abroad, he said. Mr Pandey informed the delegates that ONGC Videsh was already contributing 14 per cent of total domestic production.



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Dr David Victor also focused on gas pricing in his special address. He drew the attention of delegates to research analysis that indicated that gas prices tended to follow the oil price trend. More importantly, he cautioned the industry that US gas demand had dropped by almost a third in recent years primarily due to higher prices. Therefore, any discussion on gas pricing should incorporate the aspect of potential demand destruction.



Mr Surendra Singh, President, ORF Centre for Politics and Governance and former Cabinet Secretary, called for a market driven gas price regime. To ensure industry growth and enhance energy security, the government must ensure a long-term fiscal and market regime, he said.

IEF President PS Bami said that India has been adopting various strategies to manage its energy requirements. The abundance of natural gas coupled with its environmental soundness and multiple applications means that it is going to play an increasingly important role in meeting the country's energy demand. As a result, the country needs to come out with a clear strategy on all issues relating to indigenous and imported gas.



On the second day during the "Conclave on City Gas Distribution", Mr. Labyendu Mansingh, Chairman of the Petroleum and Natural Gas Regulatory Board (PNGRB), announced that the bidding process for city gas distribution (CGD) networks is set to start soon with the Board ready to release the technical specifications in a few days.

Mr. Mansingh said technical bids would be called within the next month. He was hopeful of issuing authorisation to the prospective city gas distributor by the end of March 2009.

Addressing various concerns brought up by participants, Mr Mansingh said that there had been conscious effort at minimising the discretionary powers of the regulator at all levels. The entire effort is to create a transparent, regulatory framework through the process of consultation and feedback.

The PNGRB has come out with the processing of EOIs leading to authorisation for CGD projects. The public consultation process in respect to about 70 cities has already been completed. The concerned regulations for authorisation, exclusivity of marketing and infrastructure, tariff determination have also been notified.

Mr Mansingh clarified that adequate measures are being taken to ensure that the gas producers do not favour their own transportation and distribution



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entities and discriminate (against) other players. Enough regulations are specified through Affiliate Code of Conduct where the CGD players will have non-discriminate third-party access to the gas pipeline infrastructure.

Mr. B S Negi, Member (Infrastructure), PNGRB, gave a detailed presentation on the procedures / checklist on the process of authorisation for CGD projects and network tariff. He urged prospective bidders to ensure that their bid is compliant with all the listed requirements.



He revealed that the Board has given a 30 per cent weightage for companies offering maximum household connections of piped gas for getting the licence. Although the price of gas is outside regulatory purview, the regulator is ensuring that the cost of transporting gas to the consumer premises is kept at the minimum.

The bid will be based on different weightage — network tariff (40%), the transportation rate for carting the gas, CNG compression charge (10%), connection to maximum number of households (30%) and size of the network in terms of inch-kilometre pipelines (10%) — to incentivise quick development of CGD network, Mr Negi said. In normal case, the entire bidding and authorisation process would take about 150 days, he said. Both Mr Mansingh and Mr Negi, however, stressed that entities should pay serious attention to the obligations outlined in the regulation and factor these into their bid.

Chairing the session, Mr S C Tripathi said there were huge expectations from city gas distribution. He said the CGD business was ready for take off buoyed by increased availability of gas, soaring liquid fuel prices and a supportive regulatory framework. Industry concerns, he said, related to review of time for bid submission, pipeline access, classification of cities and availability of gas for CGD. The other panelists were Mr. Nitin Zamare, Director, CRISIL Ltd., Mr. Shridhar Tambraparni, Sr. Vice President, Adani Energy Ltd, Mr. Shaleen Sharma, Mg. Director, Gujarat Gas Co. Ltd, Mr. Om Narayan, Adviser, GAIL India Ltd., Mr Vikas Kaushal, Vice President & Head – India Energy Practice, AT Kearney